percentage of our total U.S. DARTs and now represent 15% of U.S. trading volume versus 12% a year ago.

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Average commission per trade decreased 2% to $12.03 and 2% to $11.96 for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. The decrease was primarily a function of the mix of customers. Main Street Investors, who generally have a higher commission per trade, traded less during the period which resulted in a heavier weighting of Active Traders, who generally have a lower commission per trade.

Fees and Service Charges

During the first quarter of 2007, the Company re-defined the line item “Service charges and fees” by reclassifying certain fee-like revenue items formerly reported in “Other revenue” into the “Service charges and fees” line item, now called “Fees and service charges.” The fee-like revenue streams moved include payment for order flow, foreign currency margin revenue, 12b-1 fees after rebates, fixed income product revenues and management fee revenue.

Fees and service charges increased 13% to $65.4 million and 8% to $124.9 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. This increase was due to an increase in our advisor management fees, mutual fund fees, order flow payment and CDO management fees, partially offset by a decrease in account maintenance fees and mortgage servicing fees. We expect our account maintenance fee income to continue to decline over time as we have fewer customers who are subject to the fee; however, we expect our advisory management fee income, which is not currently a significant portion of fees and service charges, to increase over time as we focus on growing this product.

Principal Transactions

Principal transactions decreased 12% to $27.8 million and 7% to $57.9 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. The decrease in principal transactions resulted from lower trading volumes as well as a decrease in the average revenue earned per trade. Our principal transactions revenue is influenced by overall trading volumes, the number of stocks for which we act as a market maker, the trading volumes of those specific stocks and the performance of our proprietary trading activities.

Gain on Sales of Loans and Securities, Net

Gain on sales of loans and securities, net decreased 52% to $5.3 million for the three months ended June 30, 2007 compared to the same period in 2006 and remained flat at $22.7 million for the six months ended June 30, 2007 compared to the same period in 2006, as shown in the following table (dollars in thousands):

	Three Months Ended June 30,		Variance 2007 vs. 2006		Six Months Ended June 30,		Variance 2007 vs. 2006	
	2007	2006	Amount	%	2007	2006	Amount	%
Gain on sales of originated loans	$ 2,043	$ 2,681	$ (638)	(24)%	$ 3,958	$ 5,999	$ (2,041)	(34)%
Gain (loss) on sales of loans held-for-sale, net	(25)	(409)	384	(94)%	(1,687)	(1,098)	(589)	54 %
Gain on sales of loans, net	2,018	2,272	(254)	(11)%	2,271	4,901	(2,630)	(54)%
Gain on sales of securities, net	3,310	8,835	(5,525)	(63)%	20,432	17,834	2,598	15 %
Total gain on sales of loans and securities, net	$ 5,328	$11,107	$ (5,779)	(52)%	$22,703	$22,735	$ (32)	(0)%

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The decrease in the total gain on sales of loans and securities, net during the three months ended June 30, 2007 was due primarily to a decrease in gain on sales of securities, net compared to the same period in 2006. The decrease in the total gain on sales of loans and securities, net during the six months ended June 30, 2007 was due primarily to a decrease in gain on sales of originated loans, partially offset by an increase in gain on sales of securities compared to the same period in 2006.

Other Revenue

Other revenue increased 21% to $11.1 million and 23% to $20.8 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. The increase in other revenue was due to an increase in fees earned in connection with distribution of shares during initial public offerings and software consulting fees from our Corporate Services business.

Expense Excluding Interest

The components of expense excluding interest and the resulting variances are as follows (dollars in thousands):

	Three Months Ended June 30,		Variance 2007 vs. 2006		Six Months Ended June 30,		Variance 2007 vs. 2006	
	2007	2006	Amount	%	2007	2006	Amount	%
Compensation and benefits	$119,079	$125,641	$ (6,562)	(5)%	$242,861	$241,629	$ 1,232	1 %
Clearing and servicing	74,177	64,138	10,039	16 %	141,429	127,426	14,003	11 %
Advertising and market development	35,938	30,420	5,518	18 %	81,530	65,201	16,329	25 %
Communications	25,821	27,834	(2,013)	(7)%	51,977	59,242	(7,265)	(12)%
Professional services	25,162	23,219	1,943	8 %	50,147	50,974	(827)	(2)%
Depreciation and amortization	20,075	18,827	1,248	7 %	39,458	37,616	1,842	5 %
Occupancy and equipment	22,820	20,428	2,392	12 %	46,399	40,932	5,467	13 %
Amortization of other intangibles	10,187	11,972	(1,785)	(15)%	20,455	23,304	(2,849)	(12)%
Facility restructuring and other exit activities	(1,500)	2,884	(4,384)	*	(767)	2,631	(3,398)	*
Other	70,426	25,208	45,218	179 %	103,101	56,213	46,888	83 %
Total expense excluding interest	$402,185	$350,571	$ 51,614	15 %	$776,590	$705,168	$ 71,422	10 %

* Percentage not meaningful

Expense excluding interest increased 15% to $402.2 million and 10% to $776.6 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. The increase in expense excluding interest was driven primarily by $35.1 million in expense recorded for certain legal and regulatory matters, which is reflected in the other line item within total expense excluding interest.

Compensation and Benefits

Compensation and benefits decreased 5% to $119.1 million and remained relatively flat at 1% to $242.9 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. The decrease for the three months ended June 30, 2007 compared to the same period in 2006 resulted

primarily from lower incentive based compensation. We believe compensation and benefits as a percentage of revenue is a measure of our efficiency and the most relevant metric to assess this expense. This ratio declined to 18% and 19% for the three and six months ending June 30, 2007, respectively, compared to 21% and 20% for the same periods in 2006.

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Clearing and Servicing

Clearing and servicing expense increased 16% to $74.2 million and 11% to $141.4 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. This increase is due primarily to higher loan balances during the period, which resulted in higher servicing costs.

Advertising and Market Development

Advertising and market development expense increased 18% to $35.9 million and 25% to $81.5 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. This increase is a result of expanded efforts to promote our products and services to the value-driven mass affluent customer.

Communications

Communications expense decreased 7% to $25.8 million and 12% to $52.0 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. The decrease is due to higher communications expenses in 2006 to our newly acquired customers from Harris*direct* and BrownCo.

Occupancy and Equipment

Occupancy and equipment increased 12% to $22.8 million and 13% to $46.4 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. The increase is due primarily to opening new and expanding existing customer service centers.

Other

Other expenses increased 179% to $70.4 million and 83% to $103.1 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. The increase is due primarily to $35.1 million in expense recorded for certain legal and regulatory matters.

Other Income (Expense)

Other income (expense) decreased to an expense of $20.4 million and to an expense of $28.6 million for the three and six months ended June 30, 2007, compared to the same periods in 2006, as shown in the following table (dollars in thousands):

	Three Months Ended June 30,		Variance 2007 vs. 2006		Six Months Ended June 30,		Variance 2007 vs. 2006	
	2007	2006	Amount	%	2007	2006	Amount	%
Other income (expense):								
Corporate interest income	$ 1,001	$ 2,188	$ (1,187)	(54)%	$ 2,706	$ 4,149	$ (1,443)	(35)%
Corporate interest expense	(37,866)	(36,114)	(1,752)	5 %	(75,657)	(76,622)	965	(1)%
Gain on sales and impairment of investments	17,267	15,290	1,977	13 %	37,023	32,906	4,117	13 %
Gain (loss) on early extinguishment of debt	31	(568)	599	*	31	(703)	734	*
Equity in income (loss) of investments and venture funds	(840)	189	(1,029)	*	7,255	(818)	8,073	*
Total other								

income (expense)	$(20,407)	$(19,015)	$ (1,392)	*	$(28,642)	$(41,088)	$ 12,446	*

* Percentage not meaningful

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Total other income (expense) for the three and six months ended June 30, 2007 primarily consisted of corporate interest expense resulting from the senior notes and mandatory convertible notes held by the Company. During the six months ended June 30, 2007, we sold our investments in E*TRADE Australia and E*TRADE Korea, which resulted in $17.3 million and $37.0 million in gain on sales and impairment of investments for the three and six months ended June 30, 2007, respectively.

Income Tax Expense

Income tax expense from continuing operations decreased 4% to $81.8 million for the three months ended June 30, 2007, compared to the same period in 2006 and increased 7% to $174.8 million during the six months ended June 30, 2007, compared to the same period in 2006. The increase in income tax expense for the six months ended June 30, 2007 compared to the same period in prior year was related to the increase in pre-tax income over the comparable period. Our effective tax rates for the six months ended June 30, 2007 and 2006 were 34.7% and 35.3%, respectively. The decrease in our rate is principally due to the increasing tax benefit received on our tax exempt investment portfolio.

SEGMENT RESULTS REVIEW

Retail

Retail segment income increased 8% to $204.2 million and 2% to $375.6 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006, as shown in the following table (dollars in thousands, except for key metrics):

	Three Months Ended June 30,		Variance 2007 vs. 2006		Six Months Ended June 30,		Variance 2007 vs. 2006	
	2007	2006	Amount	%	2007	2006	Amount	%
Retail segment income:								
Net operating interest income after provision for loan losses	$250,504	$228,706	$ 21,798	10 %	$477,985	$434,626	$ 43,359	10 %
Commission	128,183	127,567	616	0 %	251,488	263,431	(11,943)	(5)%
Fees and service charges	57,979	52,052	5,927	11 %	112,182	105,396	6,786	6 %
Gain on sales of loans and securities, net	7,351	8,958	(1,607)	(18)%	12,262	17,685	(5,423)	(31)%
Other revenue	11,173	10,903	270	2 %	20,924	20,202	722	4 %
Net segment revenue	455,190	428,186	27,004	6 %	874,841	841,340	33,501	4 %
Total segment expense	251,027	238,695	12,332	5 %	499,220	474,515	24,705	5 %
Total retail segment income	$204,163	$189,491	$ 14,672	8 %	$375,621	$366,825	$ 8,796	2 %
Key Metrics:								
Retail client assets (dollars in billions)	$ 212.8	$ 180.1	$ 32.7	18 %	$ 212.8	$ 180.1	$ 32.7	18 %
Customer cash and deposits (dollars in billions)	$ 37.9	$ 30.1	$ 7.8	26 %	$ 37.9	$ 30.1	$ 7.8	26 %
U.S. DARTs	141,606	142,621	(1,015)	(1)%	141,425	150,843	(9,418)	(6)%

International DARTs	27,516	22,981	4,535	20 %	28,146	22,475	5,671	25 %
DARTs	169,122	165,602	3,520	2 %	169,571	173,318	(3,747)	(2)%
Average commission per trade	$ 12.03	$ 12.23	$ (0.20)	(2)%	$ 11.96	$ 12.16	$ (0.20)	(2)%
Average margin debt (dollars in billions)	$ 7.1	$ 7.0	$ 0.1	1 %	$ 7.0	$ 6.7	$ 0.3	4 %

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Our retail segment generates revenue from trading, investing, banking and lending relationships with retail customers. These relationships essentially drive five sources of revenue: net operating interest income; commission; fees and service charges; gain on sales of loans and securities, net; and other revenue. Other revenue includes results from our stock plan administration products and services, as we ultimately service retail customers through these corporate relationships. Our geographically dispersed retail accounts grew 6% from June 30, 2006 to June 30, 2007. We believe this growth is a result of the investments we have made in marketing, operations and service. As of June 30, 2007, we had approximately 3.7 million active investing and trading accounts and 1.0 million active deposit and lending accounts.

The increase in retail segment income for the three and six months ended June 30, 2007 compared to the same periods in 2006 was due to an increase in net operating income after provision for loan losses slightly offset by a decrease in gains on sales of loans and securities, net.

Retail net operating interest income after provision for loan losses increased 10% to $250.5 million and 10% to $478.0 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. This increase was driven by growth in customer cash and deposits, which generally translate into a lower cost of funds. The growth in customer cash and deposits was largely the result of the growth in the Complete Savings Account.

Retail commission revenue increased slightly to $128.2 million and decreased 5% to $251.5 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. The decrease in commission revenue was primarily the result of lower trading volumes in the overall domestic equity market. Slightly offsetting this decline was an increase in our international commissions where DARTs increased 25% from 22,475 to 28,146 for the six months ended June 30, 2007 compared to the same period in 2006.

Retail segment expense increased 5% to $251.0 million and 5% to $499.2 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. This increase related primarily to our increased marketing spend as we expanded efforts to promote our products and services to the value-driven mass affluent customer.

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Institutional

Institutional segment income decreased 20% to $57.2 million and increased 14% to $156.3 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006, as shown in the following table (dollars in thousands, except for key metrics):

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Variance 2007 vs. 2006 Amount	Variance 2007 vs. 2006 %	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006	Variance 2007 vs. 2006 Amount	Variance 2007 vs. 2006 %
Institutional segment income:								
Net operating interest income after provision for loan losses	$133,615	$105,626	$ 27,989	26 %	$275,534	$214,298	$ 61,236	29 %
Commission	41,585	39,729	1,856	5 %	77,273	79,734	(2,461)	(3)%
Fees and service charges	9,923	7,536	2,387	32 %	17,398	14,327	3,071	21 %
Principal transactions	27,768	31,590	(3,822)	(12)%	57,850	62,282	(4,432)	(7)%
Gain (loss) on sales of loans and securities, net	(2,023)	2,149	(4,172)	(194)%	10,441	5,050	5,391	107 %
Other revenue	91	52	39	75 %	132	163	(31)	(19)%
Net segment revenue	210,959	186,682	24,277	13 %	438,628	375,854	62,774	17 %
Total segment expense	153,758	115,386	38,372	33 %	282,292	238,140	44,152	19 %
Total institutional segment income	$ 57,201	$ 71,296	$ (14,095)	(20)%	$156,336	$137,714	$ 18,622	14 %
Key Metrics:								
Total nonperforming loans receivable as a % of total gross loans receivable	0.53%	0.22%	*	0.31 %	0.53%	0.22%	*	0.31 %
Average revenue capture per 1,000 equity shares	$ 0.433	$ 0.387	$ 0.046	12 %	$ 0.499	$ 0.325	$ 0.174	54 %

* Percentage not meaningful

Our institutional segment generates earnings from balance sheet management activities, market-making and global execution and settlement services. Balance sheet management activities include purchasing loan receivables from the retail segment as well as third parties, and leveraging these loans and retail customer cash and deposit relationships to generate additional net operating interest income. Retail trading order flow is

leveraged by the institutional segment to generate additional revenue for the Company.

Net operating interest income after provision for loan losses increased 26% to $133.6 million and 29% to $275.5 million for the three and six months ended June 30, 2007 compared to the same periods in 2006. These increases primarily were a result of growth in interest-earning assets, which are funded primarily by retail customer cash and deposit balances. These customer balances were kept on-balance sheet as a low-cost source of funding and then utilized by the institutional segment either to purchase interest-earning assets or pay down wholesale liabilities.

Fee and service charges revenue increased 32% to $9.9 million and 21% to $17.4 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. The increase is related to higher CDO management fees.

Principal transactions decreased 12% to $27.8 million and 7% to $57.9 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006. The decrease was due to lower trading volumes.

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Gain (loss) on sales of loans and securities, net decreased $4.2 million for the three months ended June 30, 2007 compared to the same period in 2006 and increased $5.4 million for the six months ended June 30, 2007 compared to the same period in 2006. We evaluate our portfolio of securities available-for-sale in light of changing market conditions and where appropriate, take steps intended to optimize our overall economic position. Based on this evaluation, we decided to sell certain securities, which resulted in a loss of $2.0 million and a gain of $10.4 million in gain (loss) on sales of loans and securities, net for the three and six months ended June 30, 2007, respectively.

Total institutional segment expense increased 33% to $153.8 million and 19% to $282.3 million for the three and six months ended June 30, 2007, respectively, compared to the same periods in 2006 and was due primarily to additional expense recorded for certain legal and regulatory matters.

BALANCE SHEET OVERVIEW

The following table sets forth the significant components of our consolidated balance sheet (dollars in thousands):

	June 30, 2007	December 31, 2006	Variance 2007 vs. 2006
Assets:			
Cash and equivalents[1]	$ 1,392,028	$ 1,493,856	(7)%
Trading securities	161,851	178,600	(9)%
Available-for-sale mortgage-backed and investment securities	16,893,248	13,921,983	21 %
Loans held-for-sale	242,269	283,496	(15)%
Margin receivables	7,399,916	6,828,448	8 %
Loans receivable, net	31,483,530	26,372,697	19 %
Other assets[2]	5,402,224	4,660,223	16 %
Total assets	$62,975,066	$53,739,303	17 %
Liabilities and shareholders' equity:			
Deposits	$27,770,749	$24,071,012	15 %
Securities sold under agreements to repurchase	12,435,733	9,792,422	27 %
Customer payables	6,493,401	6,182,672	5 %
Other borrowings	7,785,101	5,323,962	46 %
Corporate debt[3]	1,839,977	1,842,169	(0)%
Accounts payable, accrued and other liabilities	2,315,943	2,330,696	(1)%
Total liabilities	58,640,904	49,542,933	18 %
Shareholders' equity	4,334,162	4,196,370	3 %
Total liabilities and shareholders' equity	$62,975,066	$53,739,303	17 %

(1) Includes balance sheet line items cash and equivalents and cash and investments required to be segregated under Federal or other regulations.

(2) Includes balance sheet line items property and equipment, net, goodwill, other intangibles, net and other assets.

(3) Includes balance sheet line items senior notes and mandatory convertible notes.

During the first quarter of 2007, we re-presented our balance sheet to report margin receivables and customer payables directly on the face of the balance sheet. The remaining components of brokerage receivables and brokerage payables are now reported in the "Other assets" and "Accounts payable, accrued and other liabilities"

line items, respectively.

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The margin receivables balance is a component of the margin debt balance, which is reported as a key retail metric of $7.5 billion and $7.0 billion at June 30, 2007 and December 31, 2006, respectively. The total margin debt balance is summarized as follows (dollars in thousands):

	June 30, 2007	December 31, 2006
Margin receivables	$7,399,916	$ 6,828,448
Margin held by third parties and other	118,766	174,652
Margin debt	$7,518,682	$ 7,003,100

The increase in total assets was primarily the result of growth in loans receivable, net and available-for-sale mortgage-backed and investment securities. The growth in available-for-sale mortgage-backed and investment securities was driven primarily by growth in mortgage-backed securities. The growth in loans receivable, net was driven primarily by growth in first lien real estate loans. For this growth, the loans were originated, on average, 9 months prior to our purchase and typically include early payment default protection for up to 1 month.

The increase in total liabilities primarily was attributable to the increase in deposits and securities sold under agreements to repurchase and other borrowings. The $3.7 billion increase in deposits was due primarily to the growth in the Complete Savings Account. The increase in securities sold under agreements to repurchase and other borrowings contributed to the growth of the loans receivable, net.

Loans Receivable, Net

Loans receivable, net are summarized as follows (dollars in thousands):

	June 30, 2007	December 31, 2006	Variance 2007 vs. 2006
Real estate loans:			
One- to four-family	$15,667,337	$10,870,214	44 %
Home equity lines of credit ("HELOC"), Home equity installment loans ("HEIL") and other[(1)]	12,413,401	11,809,008	5 %
Consumer and other loans:			
Recreational vehicle	2,105,360	2,292,356	(8)%
Marine	581,724	651,764	(11)%
Commercial	275,367	219,008	26 %
Credit card	99,007	128,583	(23)%
Automobile	41,283	77,533	(47)%
Other	2,337	3,706	(37)%
Unamortized premiums, net	373,418	388,153	(4)%
Allowance for loan losses	(75,704)	(67,628)	12 %
Total loans receivable, net	$31,483,530	$26,372,697	19 %

Loans receivable, net increased 19% to $31.5 billion at June 30, 2007 from $26.4 billion at December 31, 2006. We continue to focus on our growth in first lien real estate loans while allowing our consumer loans to decline. We anticipate that our first lien real estate loan portfolio will continue to increase over time, and we believe this will improve our credit risk profile. We expect consumer loans to continue to decline as we no longer originate recreational vehicle, marine and auto loans.

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(1) The HELOC and HEIL portfolio is primarily second lien loans on residential real estate properties. We also hold the first lien position on the same residential real estate property for less than 1% of the loans in this

portfolio.

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In recent months, there has been considerable attention in the financial media regarding rising delinquencies and default rates in the sub-prime(1) lending market. As a general matter, we do not originate or purchase sub-prime loans to hold on our balance sheet; however, in the normal course of purchasing large pools of real estate loans, we invariably end up acquiring a de minimis amount of these loans. As of June 30, 2007, sub-prime loans represented less than one-fifth of one percent of our total loan portfolio.

During the first quarter of 2007, we entered into a credit default swap ("CDS") on $4.0 billion of our first-lien residential real estate loan portfolio. A CDS provides, for a fee, an assumption by a third party of a portion of the credit risk related to the underlying loans. The CDS we entered into provides protection for losses in excess of 10 basis points, but not to exceed approximately 75 basis points. In addition, our regulatory risk-weighted assets were reduced as a result of this transaction because we transferred a portion of our credit risk to an unaffiliated third party.

Allowance for Loan Losses

The allowance for loan losses is management's estimate of credit losses inherent in our loan portfolio as of the balance sheet date. The estimate of the allowance for loan losses is based on a variety of factors, including the composition and quality of the portfolio; delinquency levels and trends; probable expected losses for the next twelve months; current and historical charge-off and loss experience; current industry charge-off and loss experience; the condition of the real estate market and geographic concentrations within the loan portfolio; the interest rate climate as it affects adjustable-rate loans; and general economic conditions. Determining the adequacy of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan losses in future periods. We believe our allowance for loan losses at June 30, 2007 is representative of probable losses inherent in the loan portfolio at the balance sheet date.

In determining the allowance for loan losses, we allocate a portion of the allowance to various loan products based on an analysis of individual loans and pools of loans. However, the entire allowance is available to absorb credit losses inherent in the total loan portfolio as of the balance sheet date.

The following table presents the allowance for loan losses by major loan category (dollars in thousands):

	Consumer & Other		Real Estate		Total	
	Allowance	Allowance as % of Consumer and Other Loans Receivable	Allowance	Allowance as % of Real Estate Loans Receivable	Allowance	Allowance as % of Total Loans Receivable
June 30, 2007	$ 22,060	0.70%	$ 53,644	0.19%	$ 75,704	0.24%
March 31, 2007	$ 23,863	0.73%	$ 44,126	0.17%	$ 67,989	0.23%
December 31, 2006	$ 28,197	0.82%	$ 39,431	0.17%	$ 67,628	0.26%

The following table provides an analysis of the allowance for loan losses for the three and six months ended June 30, 2007 and 2006 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Allowance for loan losses, beginning of period	$ 67,989	$ 64,509	$ 67,628	$ 63,286
Provision for loan losses	30,045	10,270	51,231	20,467
Charge-offs	(30,356)	(13,113)	(56,800)	(27,972)
Recoveries	8,026	5,455	13,645	11,340
Net charge-offs	(22,330)	(7,658)	(43,155)	(16,632)
Allowance for loan losses, end of period	$ 75,704	$ 67,121	$ 75,704	$ 67,121

(1) Defined as borrowers with FICO scores less than 620 at the time of origination.

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Losses are recognized when it is probable that a loss will be incurred. Our policy is to chargeoff closed-end consumer loans when the loan is 120 days delinquent or when we determine that collection is not probable. For first-lien real estate loans, a charge-off is recognized when we foreclose on the property. For revolving loans and second liens, our policy is to charge-off loans when collection is not probable or the loan has been delinquent for 180 days.

During the six months ended June 30, 2007, the allowance for loan losses increased by $8.1 million from the level at December 31, 2006. The allowance for the real estate loan portfolio increased by $14.2 million, which was due primarily to the seasoning of the portoflio and the increased delinquences and charge-offs compared to 2006. The consumer loan portfolio decreased by $6.1 million, mainly a result of the decline in the size of the portfolio.

Net charge-offs for the three and six months ended June 30, 2007 compared to the same periods in 2006 increased by $14.7 million and $26.5 million, respectively. The overall increase was primarily due to higher net charge-offs on second lien real estate loans, which was driven by the growth of this portfolio in prior periods and subsequent seasoning of that growth in 2007. In addition, overall pressure in the residential real estate market including slowing home price appreciation or depreciation, rising mortgage interest rates and tighter mortgage lending guidelines across the industry are impacting the mortgage portfolio performance, which could drive additional charge-offs in the future. Annualized net charge-offs as a percentage of average loans receivable, net were 0.29% at June 30, 2007 compared to 0.22% at December 31, 2006.

Nonperforming Assets

We classify loans as nonperforming when full and timely collection of interest or principal becomes uncertain or when they are 90 days past due. The following table shows the comparative data for nonperforming loans and assets (dollars in thousands):

	June 30, 2007	December 31, 2006
Real estate loans	$163,932	$ 66,435
Consumer and other loans	3,501	8,906
Total nonperforming loans	167,433	75,341
Real estate owned ("REO") and other repossessed assets, net	20,870	12,904
Total nonperforming assets, net	$188,303	$ 88,245
Total nonperforming loans receivable as a percentage of total gross loans receivable	0.53%	0.28%
Total allowance for loan losses as a percentage of total nonperforming loans receivable	45.34%	90.52%

We expect nonperforming loan levels to fluctuate over time due to portfolio growth, portfolio seasoning and resolution through collections, sales or charge-offs. The performance of any loan can be affected by external factors, such as economic conditions or factors particular to the borrower.

During the six months ended June 30, 2007, our nonperforming assets, net increased $100.1 million from $88.2 million at December 31, 2006. The increase was attributed to an increase in nonperforming real estate loans and REO and other repossessed assets, net of $105.5 million, offset by a decrease in nonperforming consumer and other loans of $5.4 million. These trends are primarily the result of our targeted growth in real estate loans as well as the seasoning of the real estate loan acquisitions made in prior periods.

The allowance as a percentage of total nonperforming loans receivable, net decreased from 91% at December 31, 2006 to 45% at June 30, 2007. Our total loan portfolio has shifted towards a larger concentration of first lien real estate loans, where the risk of loss is generally less than the risk of loss on second lien real estate and consumer loans. As such, the total allowance as a percentage of nonperforming assets decreased.